



Farmers Telephone Company, Inc.

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Federal Communications Commission
Office of the Secretary

Michael K. Powell, Chairman
Federal Communications Commission
445 12th Street NW
Washington, DC 20554

Dear Sir:

I am writing to you as the General Manager of Farmers Telephone Company, Inc., a very small, very rural Independent Telephone Company located in the mountains and on the high mesas of southwestern Colorado. Farmers has been providing telecommunications services to this area since 1920, when it was established as a cooperative to serve the farmers, ranchers, and miners who lived in the area. There are no incorporated towns in our area; indeed, there is still not even a stoplight or gas station in our entire service area. In 1985, Farmers became a for-profit "C" corporation, and today is widely held by 155 stockholders, most of whom still live in the area.

Since 1995, Farmers has struggled to adapt to the new realities imposed by legislation passed by the State of Colorado and then by the U.S. Congress. It has seemed to us that the legislation and subsequent regulation have been designed, wittingly or unwittingly, to destroy small rural telephone companies like Farmers. Along with plowing cable, maintaining equipment and repairing phones, I along with my Board of Directors (all local farmers, ranchers, housewives and businessmen), and my small staff have been struggling to figure out if and how we can survive with all of the changes that have been implemented or are pending. Almost every day there is more potentially bad news; regulatory burdens on our tiny company continue to grow exponentially, and traditional revenue sources are continually threatened by a combination of factors including competitive threat, technological changes and regulatory fiat. I would like to address each of these threats from our perspective, with the hope that it will provide some additional insight as you consider the complex issues before the industry at this critical time.

There are two potential network competitors at the moment that provide services in our area - satellite broadband and cellular companies. Because of the fiber optic network Farmers has constructed and continues to construct under the funding regime currently in place, we are able to provide quality high-speed DSL to all of our customers. There is no "digital divide" in our service area. We believe that our broadband Internet access is better than anything our competitors can provide now or in the future. Cellular companies are a competitive threat for voice communications, but they have no interest in assuming

"Provider of Last Resort" responsibilities for those customers in remote areas where there are no economies of scale. They are, however, very interested in getting access to USF funding to help them build out their networks, and have been very aggressive in some areas in seeking access to that funding. On its face, this might seem reasonable, but only if the recipients of that funding assume the same responsibilities and accept the same terms and conditions as the companies currently receiving the funding – in other words, full regulation, Provider of Last Resort responsibilities for the entire study area (not "disaggregated") and support based on their real costs, not the same funding level as the incumbent in the areas they want to serve. The success of cellular companies in getting USF funding based on incumbent levels without the same requirements and under the same terms as the incumbents is a travesty! It threatens the viability of the funding mechanisms in place, places an unfair burden on ratepayers who ultimately pay for the funding these providers receive, and creates "subsidized competition" in areas that realistically cannot support more than one network provider, like the area served by Farmers. Further, it was always totally unnecessary. Cellular companies have been building out their networks for years without subsidies, adding facilities where there was a business case for them. Subsidizing them in the manner that has occurred added nothing that was in the public interest, in our opinion.

There is another form of "competition" that needs to be addressed. Cellular providers, Internet providers, and now VoIP providers, have been and are using the networks built by the incumbents and others to provide services without properly compensating the network providers for the use of those networks. Cellular providers have never properly compensated small companies like Farmers for the traffic that originates and terminates on our networks. Since the Internet became popular, Farmers and other providers have seen holding times on lines, trunking, and other facilities skyrocket. We have installed many additional facilities to accommodate this traffic, with no direct compensation from the providers, for the most part. Now, VoIP providers are the latest parasites using the networks we have built. What is amazing to us is that the media and the regulators seem to believe that these companies are interchangeable with and can even replace traditional telecommunications network providers! Without the networks that traditional telecommunications companies and other network providers have provided and maintain, none of these new companies that do not substantially own their own networks would exist! Network providers such as Farmers should receive compensation from all service providers that utilize our networks, in much the same manner as long distance companies have done in the past. This will allow us to recover some of our costs for providing these facilities, reduce pressure on support funding such as USF, and keep costs for the network connection to customers reasonable. Remember, without our network, and the networks of other providers, VoIP providers would not exist!

Finally, a competitive threat created by legislation that has not impacted Farmers yet needs to be eliminated, and that is the requirement that we could be forced to sell access to our network, or elements of our local network (Unbundled Network Elements, or UNE's), to so-called competitors. Real telecommunications providers build networks, they don't resell UNE's! These resellers contribute nothing of value to the national information network infrastructure – they are parasites utilizing regulatory arbitrage to

destroy their hosts, with the willing complicity of legislators and regulators. This must stop immediately.

Without the cost support mechanisms in place, it would be almost impossible for small rural telephone companies like Farmers to keep up with the pace of technological change in our industry. Contrary to the constant hype, much of the new technology offers services our customers do not want or need. Even though all of our customers can have high-speed DSL service, only about 12% of our customers are willing to pay for it so far. Most of our customers do not use many of the advanced services our central office equipment can provide. "POTS" is alive and well in southwest Colorado! Still, Farmers understands and believes that technology will continue to improve and provide opportunities for competitors to provide services to our customers. Farmers has always understood that cellular companies were a viable and real competitor (as opposed to resellers, Internet Access providers and VoIP providers). We have no problem with real competition, as long as the playing field is level, and our competitors play by the same rules as we do. Unfortunately, as noted earlier, that is not always the case. Satellite technology continues to evolve and may someday become a viable competitor for voice and/or broadband service, although it is not at the present time due to its technical limitations. Broadband over Power Lines (BPL) is a potential competitive technology, although the viability of BPL in the very rural area Farmers serves remains to be seen. Our local electrical cooperatives lost a significant amount of money attempting to get into the telecommunications business during the technology boom/bust at the end of the last century, and are not anxious to invest new money in unproven technology and enter what is now a very competitive market. Fixed wireless, WI-FI, etc. may be able to serve parts of our service area, but because of the terrain and low population density of our area, and the fact that our customers already have access to broadband, there is simply not a business case for it in our area. For the same reasons, Cable TV is not a viable option in our area.

Farmers believes that the very best network, the only network that is "future-proof" as far as we can see, is a fiber optic network. Accordingly, we have spent what is for us a significant amount in capital investment over the past ten years installing fiber optic cable in our network. Our ultimate goal is fiber to the home for all of our customers, although that will take considerable additional investment. We are willing and ready to make that investment, and absolutely assure that our very rural customers will have access to all of the benefits that technology can bring, IF we are assured that there will be a regulatory regime in place that protects that investment and provides funding for us to install, operate and maintain the network. For many years, a regulatory regime has been in place that allowed small, rural telephone companies like Farmers to provide a standard of service to the rural areas we serve that is the envy of customers served in larger, more urban areas. Farmers has used that regime to provide broadband access and all of the services our customers want and need, provide local employment, support our local communities, stimulate local economies, and do all of the things responsible utilities do in the rural communities we serve.

Today, however, legislators and regulators seem determined to destroy us. Large companies who do not care about the rural communities we serve are lobbying ferociously to do away with or confiscate our funding sources, gain access to our facilities at or below our cost, burden us with responsibilities they do not want to bear, avoid paying us for the use of our networks, and in general attempting to make it impossible for us to survive. Many of the small companies are cooperatives, or as in Farmers case are owned by local investors who have a stake in our survival. Why politicians and regulators do not care about these people is a mystery to us. Nothing is to be gained, and much will be lost, by destroying these small companies who serve rural areas no one else really wants to serve. A fundamental decision must be made by both legislators and regulators: Is it still in the public interest to support rural telecommunications companies who serve areas with no economies of scale and provide services comparable to services provided in urban areas? If the answer is yes, and we believe it should be, then the country must proceed full speed to enact legislation and regulation that will provide regulatory and financial certainty to those companies so that they can proceed with confidence to deploy the infrastructure we will need in the future to provide the services our customers will want.

Currently, the Federal-State Joint Board on Universal Service is seeking comment on revising High-Cost Support, specifically focused on the following issues: 1) whether the definition of "rural telephone company" should be revised to determine which carriers are rural carriers for high-cost support purposes, 2) whether an embedded-cost mechanism should be used to determine support, and 3) whether the rules governing high-cost universal service for transferred exchanges should be modified. We would like to make the following comments in that regard.

Farmers has always believed that the definition of small rural carrier is too broad. There is an immense difference between a rural, stand-alone company with less than 5,000 access lines than one with 100,000, or even 50,000 access lines. Farmers, with less than 1,000 access lines, simply does not have the resources and economies of scale to deal with competition and all of the other issues that larger companies are much better equipped to deal with. Further, the cost of dealing with our regulatory and funding issues is way out of proportion to the size of our company. We are forced to rely on cost consultants, attorneys and accountants to deal with all of the regulatory and funding issues we must respond to each year. The cost of dealing with all of these issues, including my time, staff time, and what we pay for various consulting services is about 10% of our gross revenue. About 50% of all of the annual revenue we collect from our customers for local services goes to deal with those issues. This is, quite frankly, outrageous! Almost all of our "real" operating expense and profits must be recovered from access charges, NECA pools, and USF.

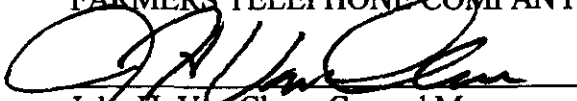
We are treated exactly the same as much larger companies for regulatory purposes, and for purposes of cost accounting, auditing, etc. It seems to us that a regime could be put in place that basically deregulates what we would like to call "Very Small Rural Telephone Companies", or VSRTC's, defined as companies with less than 5,000 access lines total. We should be able to use "GAAP" accounting practices that any reasonably competent

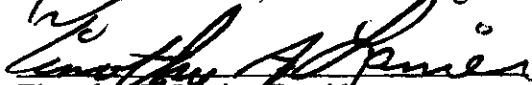
accountant understands and can deal with, and receive funding support based on formulas that are easily understood and can be calculated by that same accountant, without the expense of cost consultants performing "cost studies" and other regulatory services. We should not be forced to provide access to our network to other providers. We believe that the current regime is wasteful, provides nothing of value for the industry or the customer, and creates significant costs that if eliminated, would help us compete with other providers on a level playing field and reduce the amount of support we need from the various funding sources. The numbers of access lines "VSRTC's" have nationwide is statistically insignificant. Creating such a category and allowing relaxed regulation and simplified cost recovery for those companies, many of whom are cooperatives, would have almost no impact on the industry. Of course, larger companies will not like this approach, because for years they have used VSRTC's as cover to pursue their own ends.

Farmers is doing everything it can with its limited resources to become competitive and adjust to what appear to be the new realities in our industry, but without regulatory certainty and cost recovery certainty, our future is murky at best. We understand that the issues facing the industry are complicated and difficult. We ask only that you consider the needs of the very small, rural telephone companies in your deliberations, and that you proceed with all due speed to resolve and clarify the issues so that we can continue to provide essential services to customers who might otherwise be left behind.

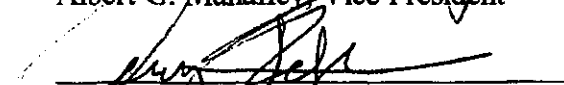
Sincerely,

FARMERS TELEPHONE COMPANY, INC


John H. Van Cleve, General Manager



Timothy A. Lanier, President


Albert G. Mahaffey, Vice President


Jerry Fetterman, Secretary/Treasurer


Ellen Oliver, Board Member


James Lambert, Board Member


Bessie White, Board Member